

Message Text

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ACTION AF-08

INFO OCT-01 ISO-00 ERDA-05 AID-05 CEA-01 CIAE-00 CIEP-01
COME-00 DODE-00 EB-07 FEAE-00 FPC-01 H-01 INR-07
INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04 USIA-06
OES-06 SP-02 SS-15 STR-04 TRSE-00 ACDA-07 /095 W
----- 107897 /53

R 131102Z DEC 76
FM AMEMBASSY LAGOS
TO SECSTATE WASHDC 8161

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E.O. 11652: N/A
TAGS: PFOR, NI
SUBJECT: OBASANJO'S VIEWS ON OIL PRICES AND PRODUCTION INCENTIVES

1. I HAD OCCASION FOR A BRIEF PRIVATE CONVERSATION ON OIL MATTERS WITH HEAD OF STATE OBASANJO DURING COURSE OF HIS MEETING AT DODAN BARRACKS DECEMBER 10 WITH SENATOR CLARK. I SAID I HAD RECENTLY PRESENTED US POSITION REGARDING OIL PRICE INCREASE TO PETROLEUM COMMISSIONER BUHARI AND STAFF. I GAVE A BRIEF SUMMARY OF US VIEWS.

2. OBASANJO REPLIED THAT "IT ALL DEPENDS ON WHOSE ECONOMISTS AND WHOSE COMPUTERS YOU ARE USING." HE THEN CITED REPORTS OF UPCOMING US STEEL PRICE INCREASES, SAYING THAT THEY WEAKEN THE US THESIS REGARDING THE EXTENT OF INFLATION OF COST OF MANUFACTURED GOODS. HE AGREED THAT THE CYCLE OF INCREASING PRICES LEFT NON-OIL PRODUCING LDC'S IN A PARTICULARLY HAZARDOUS POSITION. HE GAVE NO PRECISE INDICATION OF POSTION NIGERIA WOULD TAKE AT UPCOMING OPEC MEETING BUT SAID NIGERIA NEEDED HIGHER INCOME IN FACE OF FORTY PERCENT ANNUAL DOMESTIC INFLATION.

3. EMBASSY CONTINUES TO BELIEVE NIGERIA WILL PROBABLY STICK WITH ANNOUNCED DECISION TO SUPPORT MODEST INCREASE.

4. I CITED NIGERIAN FINANCIAL SHORTFALLS AND PROBABLE NEED TO BORROW IN ORDER MEET HEAVY DEVELOPMENT PLAN EXPENDITURES. I SUGGESTED THAT, WHEREAS SOME NIGERIANS MIGHT THINK AN INCREASE IN THE OIL PRICE WOULD PROVIDE HIGHER INCOME TO NIGERIA AT LEAST IN THE SHORTRUN, ANOTHER WAY TO INCREASE REVENUE WAS TO INCREASE PRODUCTION. YET FOREIGN OIL COMPANIES WERE NOT NOW ABLE TO DEVELOP
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NEW WELLS GIVEN THE LOW PROFITABILITY OF THEIR NIGERIAN OPERATIONS.

I SAID AMERICAN PRODUCING COMPANIES HAD BEEN ENCOURAGED BY HIS
REFERENCE TO "INCENTIVES" IN OCTOBER 30 INDEPENDENCE DAY SPEECH.

5. OBASANJO SAID HE HAD INDAED PROMISED INCENTIVES " - "BUT NOT
CONCESSIONS." I ASKED WHETHER HE MEANT THAT THE INCENTIVES WOULD
BE CONFINED TO SUCH DEVICES AS FASTER DEPRECIATION RATES RATHER THAN
HIGHER RETURN ON OLD AND/OR NEW INVESTMENTS IN PRODUCTION FACILITIES.
OBASANJO REPLIED THAT HE DID NOT KNOW THE DETAILS OF
WPAT WAS UNDER STUDY BUT "MY BOYS ARE BUSY WORKING SOMETHING OUT
NOW." I WAS UNFORTUNATELY UNABLE TO CLARIFY WHETHER HIS REFERENCE
TO "CONCESSIONS" MEANT INCREASED ACREAGE FOR DEVELOPMENT OR
HIGHER RATES OF RETURN ON INVESTMENTS.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PETROLEUM, PRICES, GOVERNMENT REACTIONS
Control Number: n/a
Copy: SINGLE
Draft Date: 13 DEC 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: CunninFX
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976LAGOS13834
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760458-1072
From: LAGOS
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19761249/aaaabqbn.tel
Line Count: 74
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION AF
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: CunninFX
Review Comment: n/a
Review Content Flags:
Review Date: 27 JUL 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <27 JUL 2004 by BoyleJA>; APPROVED <18 OCT 2004 by CunninFX>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: OBASANJO'S VIEWS ON OIL PRICES AND PRODUCTION INCENTIVES
TAGS: PFOR, NI, OPEC, (OBSANJO, OLUSEGUN)
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006